

SOUTHERN IOWA COUNCIL OF GOVERNMENTS  
CRESTON, IOWA

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2015

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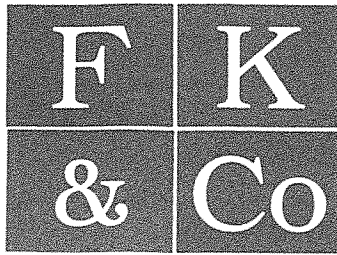
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Southern Iowa Council of Governments

Officials

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Ron Riley	Chair	Union County
Royce Dredge	Vice-Chair	Ringgold County
Aaron Price	Secretary	Madison County
Karen Zabel	Treasurer	City of Lenox
John Twombly	Member	Adair County
Linda England	Member	Adams County
Marvin McCann	Member	Clarke County
J.R. Cornett	Member	Decatur County
Doug Davidson	Member	Private Interest
William Trickey	Member	Private Interest
Michelle Tullberg	Member	Private Interest
Beth Waddle	Member	Private Interest
Tom Lesan	Member	Member-At-large
Timothy Ostroski	Executive Director	

Southern Iowa Council of Governments



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors of  
Southern Iowa Council of Governments:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Southern Iowa Council of Governments (Government), Creston, Iowa, as of and for the year ended September 30, 2015, and the related Notes to Financial Statements, which collectively comprise the Government's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Government's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Government as of September 30, 2015, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

### Emphasis of Matter

As discussed in Note 16 to the financial statements, the Government adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27. Our opinions are not modified with respect to this matter.

### Other Matters

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Schedule of the Government's Proportionate Share of the Net Pension Liability and the Schedule of Government Contributions on pages 7 through 13 and 35 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Government's basic financial statements. The supplementary information included in Schedule 1, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 29, 2016, on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Government's internal control over financial reporting and compliance.



Faller, Kincheloe & Co., PLC

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Southern Iowa Council of Governments (Government) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended September 30, 2015. We encourage readers to consider this information in conjunction with the Government's financial statements, which follow.

Because the Government is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Government's financial position and results of operations.

### **2015 FINANCIAL HIGHLIGHTS**

- Revenues of the Government increased from \$3,484,627 in fiscal year 2014 to \$6,382,289 in fiscal year 2015, and expenditures increased from \$3,293,040 in fiscal year 2014 to \$6,596,943 in fiscal year 2015. The Government's fund balance decreased from \$2,735,736 at the end of fiscal year 2014 to \$2,521,082 at the end of fiscal year 2015.
- The fiscal year 2015 revenue increase was the result of increased monies from Union County to fund disaster related projects.
- The fiscal year 2015 expenditure increase was the result of increased payments to recipients of the disaster monies the Government received from Union County.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements as well as other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Government's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of the Government as a whole and represent an overall view of the Government's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Government's operations in more detail than the government-wide financial statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

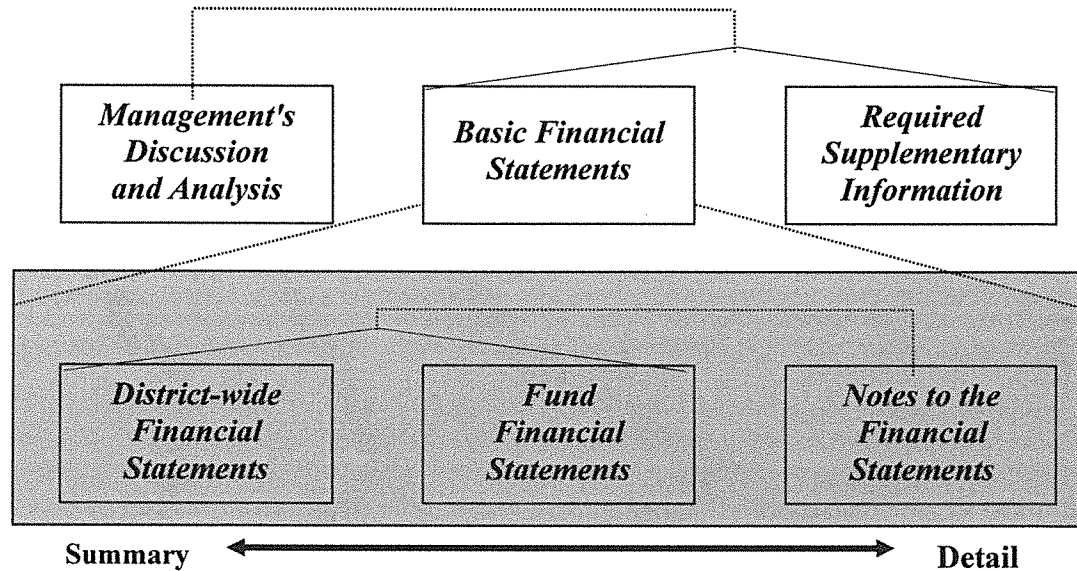
Required Supplementary Information presents the Government's proportionate share of the net pension liability and related contributions.

The Supplementary Information includes the Schedule of Expenditures of Federal Awards, which provides details of various federal programs benefiting the Government.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**

***Southern Iowa Council of Governments Annual Financial Report***





## **REPORTING THE GOVERNMENT'S FINANCIAL ACTIVITIES**

### ***Government-wide Financial Statements***

The government-wide financial statements report information about the Government as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the Government's net position and how it has changed. Net position – the difference between the Government's assets and liabilities – is one way to measure the Government's financial health or financial position. Over time, increases or decreases in the Government's net position is an indicator of whether financial position is improving or deteriorating. To assess the Government's overall health, additional non-financial factors, such as changes in the Government's members and the condition of equipment, need to be considered.

In the government-wide financial statements, the Government's activities are categorized as governmental activities.

### ***Fund Financial Statements***

The fund financial statements provide more detailed information about the Government's funds, focusing on its most significant or "major" funds – not the Government as a whole. Funds are accounting devices the Government uses to keep track of specific sources of funding and spending on particular programs.

Most of the Government's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Government's programs.

The Government's governmental funds include the General Fund and the Southern Iowa Development Group, Inc. Fund.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of the Government's net position at September 30, 2015.

<b>Condensed Statement of Net Position</b> <b>(Expressed in Thousands)</b>	
	<u>September 30,</u> <u>2015</u>
Current and other assets	\$ 3,569
Capital assets	<u>68</u>
Total assets	<u>3,637</u>
Deferred outflows of resources	<u>19</u>
Long-term liabilities	401
Other liabilities	<u>692</u>
Total liabilities	<u>1,093</u>
Deferred inflows of resources	<u>42</u>
Net position:	
Net investment in capital assets	68
Restricted	1,342
Unrestricted	<u>1,111</u>
Total net position	<u>\$ 2,521</u>

The Government's combined net position decreased by 7.8% or \$214,654 from the prior year.

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of October 1, 2014 for governmental activities were restated by \$279,362 to retroactively report the net pension liability as of September 30, 2014, to record deferred outflows of resources related to contributions made after the June 30, 2014 measurement date, differences between expected and actual experience and changes in assumptions, and deferred inflows of resources related to the net differences between projected and actual investment earnings on pension plan investments. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

The following shows the changes in net position for the year ended September 30, 2015.

<b>Changes in Net Position</b> <b>(Expressed in Thousands)</b>	
	<u>2015</u>
Revenues:	
Program revenues:	
Charges for service	\$ 362
Operating grants, contributions and restricted interest	97
Capital grants, contributions and restricted interest	5,821
General revenues:	
Unrestricted investment earnings	27
Gain on disposition of capital assets	20
Local dues	55
Total revenues	<u>6,382</u>
Program expenses:	
Community and economic development	<u>6,597</u>
Total expenses	<u>6,597</u>
Change in net position	(215)
Net position beginning of year, as restated	<u>2,736</u>
Net position end of year	<u>\$ 2,521</u>

Capital grants, contributions and restricted interest account for 91% of the total revenue. The Government's expenses consist of 100% of community and economic development expenses.

### **Governmental Activities**

Revenues for governmental activities were \$6,382,289 and expenses were \$6,596,943 for the year ended September 30, 2015.

For the year ended September 30, 2015:

- The cost financed by the users of the Government's programs was \$362,075.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$5,918,064.
- The net costs of governmental activities was financed with \$27,472 in unrestricted interest earnings, and \$74,678 in other general revenues.

The cost of all activities this year was \$6,596,943 compared to \$3,293,040 last year. These costs were primarily financed by those who directly benefited from the programs and grants from the federal and state government.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, the Government uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the Government as a whole is reflected in its governmental funds, as well. As the Government completed the year, its governmental funds reported combined fund balances of \$2,877,545, a decrease of \$109,629 from last year's ending fund balances of \$2,987,174.

### **Governmental Fund Highlights**

- The General Fund balance decreased from \$859,069 at the end of fiscal year 2014 to \$736,877 at the end of fiscal year 2015. This decrease was primarily due to an increase in contractual funds paid out to recipients of the disaster program that was ultimately funded by the federal government.
- The Southern Iowa Development Group, Inc. fund balance increased from \$2,128,105 at the end of fiscal year 2014 to \$2,140,668 at the end of fiscal year 2015. This slight increase is largely from interest received on existing business loans. There was one new business loan made in fiscal year 2015.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At September 30, 2015, the Government had \$67,782 invested, net of accumulated depreciation, in equipment. This represents a net increase of 75.3% from last year. More detailed information about the Government's capital assets is presented in note 7 to the financial statements. Depreciation expense for the year was \$12,277.

The original cost of the Government's capital assets was \$136,184. The significant increase in capital assets in fiscal year 2015 is due to the purchase of a new copier, and for costs associated with building improvements.

### **Long-Term Liabilities**

At September 30, 2015, the Government had \$400,931 in total long-term liabilities outstanding. This represents a net increase of 24.53% from last year. The increase in long-term liabilities in fiscal year 2015 is due to the line of credit payable at September 30, 2015. More detailed information about the Government's long-term liabilities is presented in Note 8 to the financial statements.

The Government's long-term liabilities at September, 2015 consisted of compensated absences, net pension liability, and a line of credit payable.

## **ECONOMIC FACTORS BEARING ON THE GOVERNMENT'S FUTURE**

The Government's Executive Committee considered various factors when setting the fiscal year 2015 budget and fees that will be charged for agency activities. The Government's operations are expected to remain consistent with the previous year.

## **CONTACTING THE GOVERNMENT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Government's finances and to show the Government's accountability for the money it receives. If you have any questions or need additional financial information, please contact Judy Brimm, Finance Director, Southern Iowa Council of Governments, P.O. Box 102, 101 East Montgomery Street, Creston, Iowa 50801.

## Basic Financial Statements

## Southern Iowa Council of Governments

Exhibit A

## Statement of Net Position

September 30, 2015

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 1,942,450
Accounts receivable	828,361
Loans receivable, less allowance for loan losses	759,466
Lease receivable	39,372
Capital assets (net of accumulated depreciation)	<u>67,782</u>
<b>Total assets</b>	<u>3,637,431</u>
<b>Deferred Outflows of Resources</b>	
Pension related deferred outflows	<u>18,874</u>
<b>Liabilities</b>	
Accounts payable	675,900
Accrued expenses	16,204
Long - term liabilities:	
Portion due within one year:	
Compensated absences payable	35,683
Line of credit	125,050
Portion due after one year:	
Net pension liability	<u>240,198</u>
<b>Total liabilities</b>	<u>1,093,035</u>
<b>Deferred Inflows of Resources</b>	
Pension related deferred inflows	<u>42,188</u>
<b>Net Position</b>	
Net investment in capital assets	67,782
Restricted for:	
Loan purposes	1,341,830
Unrestricted	<u>1,111,470</u>
<b>Total net position</b>	<u><u>\$ 2,521,082</u></u>

See notes to financial statements.

Southern Iowa Council of Governments

Exhibit B

Statement of Activities

Year ended September 30, 2015

	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Operating				
	Expenses	Charges for Service	Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities
<b>Functions / Programs:</b>					
Governmental activities:					
Community and economic development	\$ 6,596,943	362,075	97,415	5,820,649	(316,804)
<b>Total</b>	<u>\$ 6,596,943</u>	<u>362,075</u>	<u>97,415</u>	<u>5,820,649</u>	<u>(316,804)</u>
<b>General Revenues:</b>					
Unrestricted investment earnings					\$ 27,472
Gain on disposition of capital assets					20,054
Local dues					54,624
Total general revenues					<u>102,150</u>
Change in net position					(214,654)
Net position beginning of year, as restated					<u>2,735,736</u>
Net position end of year					<u>\$ 2,521,082</u>

See notes to financial statements.



## Southern Iowa Council of Governments

Exhibit C

Balance Sheet  
Governmental Funds

September 30, 2015

		Special Revenue	
		Southern	
		Iowa	
		Development	
		Group,	
	General	Inc.	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 565,268	1,377,182	1,942,450
Accounts receivable	828,361	-	828,361
Loans receivable, less allowance for loan losses	-	759,466	759,466
Lease receivable	-	39,372	39,372
Due from other funds	34,877	-	34,877
<b>Total assets</b>	<b>\$ 1,428,506</b>	<b>2,176,020</b>	<b>3,604,526</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 675,900	-	675,900
Accrued expenses	15,729	475	16,204
Due to other funds	-	34,877	34,877
Total liabilities	691,629	35,352	726,981
Fund balances:			
Nonspendable:			
Loans receivable	-	759,466	759,466
Lease receivable	-	39,372	39,372
Restricted for:			
Loan purposes	-	1,341,830	1,341,830
Unassigned	736,877	-	736,877
Total fund balances	736,877	2,140,668	2,877,545
<b>Total liabilities and fund balances</b>	<b>\$ 1,428,506</b>	<b>2,176,020</b>	<b>3,604,526</b>

See notes to financial statements.

Southern Iowa Council of Governments

Exhibit D

Reconciliation of the Balance Sheet -  
Governmental Funds to the Statement of Net Position

September 30, 2015

**Total fund balances of governmental funds (page 17)** **\$ 2,877,545**

*Amounts reported for governmental activities in the Statement of Net Position are different because:*

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 67,782

Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:

Deferred outflows of resources	\$ 18,874	
Deferred inflows of resources	<u>(42,188)</u>	(23,314)

Long - term liabilities, including compensated absences payable line of credit payable and net pension liability are not due and payable in the current period and, therefore, are not reported in the governmental funds. (400,931)

**Net position of governmental activities (page 15)** **\$ 2,521,082**

See notes to financial statements.

## Southern Iowa Council of Governments

Exhibit E

Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Governmental Funds

Year ended September 30, 2015

		Special Revenue Southern Iowa Development Group, Inc.	Total
	General		
Revenues:			
Use of money and property:			
Interest income	\$ 176	27,296	27,472
Rental income	3,300	-	3,300
	<u>3,476</u>	<u>27,296</u>	<u>30,772</u>
Charges for service:			
Loan origination fees	-	9,416	9,416
Contract administration	387,536	-	387,536
	<u>387,536</u>	<u>9,416</u>	<u>396,952</u>
Intergovernmental:			
Federal funds	5,600,744	-	5,600,744
State funds	14,706	-	14,706
Memberships dues and fees	54,624	-	54,624
	<u>5,670,074</u>	<u>-</u>	<u>5,670,074</u>
Miscellaneous	287,589	11,725	299,314
Total revenues	<u>6,348,675</u>	<u>48,437</u>	<u>6,397,112</u>
Expenditures:			
Operating:			
Community and economic development			
Personnel	349,537	-	349,537
Fringe benefits	98,620	-	98,620
Travel	5,816	-	5,816
Phone	3,014	-	3,014
Printing and postage	4,575	-	4,575
Supplies	6,567	-	6,567
Equipment	21,339	-	21,339
Insurance	11,920	-	11,920
Other	38,052	-	38,052
Contractual	6,047,183	34,877	6,082,060
Interest	657	514	1,171
Utilities	8,637	-	8,637
Bad debt	-	476	476
Miscellaneous	-	7	7
Total expenditures	<u>6,595,917</u>	<u>35,874</u>	<u>6,631,791</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(247,242)</u>	<u>12,563</u>	<u>(234,679)</u>
Other financing sources:			
Proceeds from line of credit	125,050	-	125,050
Total other financing sources	<u>125,050</u>	<u>-</u>	<u>125,050</u>
Change in fund balances	(122,192)	12,563	(109,629)
Fund balances beginning of year, as restated	859,069	2,128,105	2,987,174
Fund balances end of year	<u>\$ 736,877</u>	<u>2,140,668</u>	<u>2,877,545</u>

See notes to financial statements.

Southern Iowa Council of Governments

Exhibit F

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances -  
Governmental Funds to the Statement of Activities

Year ended September 30, 2015

**Net change in fund balances - total governmental funds (page 19)** **\$ (109,629)**

*Amounts reported for governmental activities in the Statement of  
Activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, these costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures of capital assets	\$ 21,339	
Depreciation expense	<u>(12,277)</u>	9,062

In the Statement of Activities, the gain on disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. 20,054

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Current year issuances exceeded repayments, as follows:

Issued	(125,050)	
Repaid	<u>-</u>	(125,050)

The current year Government employer share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as a deferred outflow of resources in the Statement of Net Position. 8,632

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences	(16,667)	
Pension expense	<u>(1,056)</u>	<u>(17,723)</u>

**Change in net position of governmental activities (page 16)** **\$ (214,654)**

See notes to financial statements.

Southern Iowa Council of Governments

Notes to Financial Statements

September 30, 2015

Note 1. Summary of Significant Accounting Policies

The Southern Iowa Council of Governments (Government) was created pursuant to Chapter 28E of the Iowa Code. The Government is a voluntary organization of counties and municipal corporations in the south-central and southwest Iowa region. All territory within eight identified counties (Adair, Adams, Clarke, Decatur, Madison, Ringgold, Taylor and Union) is designated to be the Government's region.

The Government is the recipient of several program grants. In addition, funds are received from local member governments to aid in the planning functions of the Government. In exchange for these member government contributions, the Government provides information, planning services, and technical assistance as well as coordinates the activities of these local governments with other local governments or grantor agencies. The Government functions as the comprehensive planning and review agency for the Government's region, and is available to assist member governments in any other manner that they may direct.

The financial statements of the Government have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the Government has included all funds, agencies, boards, commissions and authorities. The Government has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Government are such that exclusion would cause the Government's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Government.

These financial statements present the Government (the primary government) and its component unit. The component unit discussed below is included in the Government's reporting entity because of the significance of its operational or financial relationship with the Government.

Blended Component Unit – The Southern Iowa Development Group, Inc. has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to provide loans to area businesses, individuals and governments. The Government's Executive Board is also the Board of Southern Iowa Development Group, Inc., and the Government can impose its will on Southern Iowa Development Group, Inc. In accordance with the criteria set forth by the Governmental Accounting Standards Board, the Southern Iowa Development Group Inc. meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the Government.

The Southern Iowa Development Group, Inc., is a non-profit organization exempt from income tax under Internal Revenue Code Section 501(c)(3) and a similar section of the Iowa income tax law which provide tax exemption for corporations organized and operated exclusively for religious, charitable or educational purposes. The Corporation is not classified as a private foundation by the Internal Revenue Service.

Note 1. Summary of Significant Accounting Policies (continued)

Accounting standards for income taxes, which apply to nonprofit corporations, prescribe a comprehensive model for how an organization measures, recognizes, presents, and discloses in its financial statements uncertain tax positions that the organization has taken or expects to take on its income tax returns. This includes positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. The Southern Iowa Development Group Inc.'s income tax filings are subject to audit by various taxing authorities. The Southern Iowa Development Group Inc.'s open audit periods are 2011-2014. In evaluating the Southern Iowa Development Group Inc.'s tax provisions and accruals, future taxable income, the reversal of temporary differences, interpretations, and tax planning strategies are considered. Management believes their estimates are appropriate based on current facts and circumstances.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the Government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are primarily supported by intergovernmental revenues and charges for services.

The Statement of Net Position presents the Government's nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net position* results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital improvements of a particular function. Other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major governmental funds are reported as separate columns in the fund financial statements.

The Government reports the following major governmental funds:

The General Fund is the general operating fund of the Government. All receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From this fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Southern Iowa Development Group, Inc. Fund is used to account for the revolving loan funds and lease revenues and expenditures. The Southern Iowa Development Group, Inc. is a blended component unit of the Government.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Government considers revenues to be available if they are collected within 60 days after year end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Government.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgements and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of the grant agreements, the Government funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Government's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the Government's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents – The cash balances of most Government funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

Loans Receivable - Loans receivable, are carried at the original loan amount less an estimate made for loan losses based on a review of all outstanding amounts on a yearly basis. Management determines the allowance for loan losses by identifying troubled loans and by using historical experience applied to an aging of loans. Loans receivable are written off when deemed uncollectible. Recoveries of loan receivables previously written off are recorded as income when received. The allowance for loan losses at September 30, 2015 was \$35,453 for the Southern Iowa Development Group, Inc.

Note 1. Summary of Significant Accounting Policies (continued)

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental activities column in the government-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extend the useful lives are not capitalized. Capital assets are defined by the Government as assets with initial, individual cost in excess of \$500 and estimated useful lives in excess of two years.

Capital assets of the Government are depreciated using the straight line method over estimated useful lives of 3-39 years.

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Compensated Absences – Government employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at September 30, 2015.

Long-Term Liabilities – In the government-wide financial statements other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Position.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.



Note 1. Summary of Significant Accounting Policies (continued)

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classifications.

- E. Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- F. Indirect Expense Allocation – Expenses relating to the administration of the Government in general are allocated to the specific program grants based upon actual time spent (salaries, benefits, etc.), or some other equitable basis depending upon the nature of the expenditure.
- G. Budgets and Budgetary Accounting – The budgetary comparison and related disclosures are not reported as Required Supplementary Information, since there is no legal requirement to adopt a budget.

Note 2. Cash and Cash Equivalents

Primary Government and Blended Component Unit:

The Government's deposits in banks at September 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Government is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers' acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts and warrants or improvement certificates of a drainage Government.

The Government had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statements No. 3, as amended by Statement No. 40.

Note 3. Accounts Receivable

Amounts shown as accounts receivable of \$828,361 at September 30, 2015 consist of amounts due from other governments and non-profits. Management believes all these amounts are collectible. Therefore, no allowance for doubtful accounts for accounts receivable was accrued at September 30, 2015.

Note 4. Due From and Due to Other Funds

The detail of the interfund receivables and payables at September 30, 2015 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue:	
	Southern Iowa Development Group, Inc.	<u>\$ 34,877</u>

The above represents administrative reimbursements due the Government from Southern Iowa Development Group, Inc. as of September 30, 2015.

Note 5. Loans Receivable

Blended Component Unit:

The Southern Iowa Development Group, Inc. entered into an agreement with the Government to serve as sub-grantee for the three revolving loan fund grants. The loans are secured by various security agreements and are made to businesses in the eight county region. Loans are subject to guidelines provided by the federal granting agency and must stimulate the local economy and encourage job creation. The initial funds were provided through three different grants from the U.S. Department of Commerce, Economic Development Administration (EDA), supplemented by a minimum required local match from various sources. The EDA may terminate any grant whenever it is determined that the grantee has failed to comply with the conditions of the grant. The interest rates on these loans can not be less than the lower of 4%, or 75% of the prime interest rate, with no upper limit. The current interest rates on the loans outstanding is 4%. These loans are repayable monthly, and current loans range from a 60-180 month loan payback schedule. The number of months to payback the loans varies depending on the purpose of the loan proceeds. At September 30, 2015, the fund had a portfolio of loans totaling \$465,091, and a cash balance of \$1,060,440.

The Southern Iowa Development Group, Inc. has established a revolving loan fund with funds received in 1991 from the Iowa Finance Authority. These loans are made to individual first time homebuyers in the eight county region. A maximum payment of \$5,000 for first time homebuyers to be used for down payment will be made to qualified individuals. The loans carry a term of 7 years at 2% interest. The repayments of the loans are due monthly; however, the first principal and interest payment is deferred for the first 2 years. In addition, the borrower must provide a dollar for dollar match of their own money as a condition of receiving this loan. Until the loan balance is paid off, the Government holds either a first or second mortgage on the real estate. At September 30, 2015, the fund had a portfolio of loans totaling \$322,963, and a cash balance of \$139,475.

The Southern Iowa Development Group, Inc. has established a revolving loan fund with funds received in the 1990's from the U.S. Department of Agriculture (USDA). These loans are made to communities of under 2,500 people in the eight county region for costs associated for emergency repairs to community facilities. The loans are generally between \$5,000 and \$20,000, are generally at a 2% interest rate, and are repayable monthly over a 3 year period. However, these repayment terms are reviewed on a case by case basis, and can be modified at any time. At September 30, 2015, the fund had a portfolio of one loan totaling \$6,865, and a cash balance of \$33,431.

At September 30, 2015, the combined loan balance of all of the above types of loans totaled \$794,919, net of a \$35,453 allowance for uncollectible accounts, resulting in a carrying value of \$759,466.

Note 6. Lease Receivable

Blended Component Unit:

The Southern Iowa Development Group, Inc. is leasing a crane to Iowa Steel Fabrication, LLC. The original amount of the lease was \$49,192. The lease has an interest rate of 3%, with a \$475 lease payment due monthly to the Southern Iowa Development Group, Inc. Assuming monthly payments of \$475 are made monthly, the lease is scheduled to mature on June 1, 2023, at which time the crane will be owned by Iowa Steel Fabrication, LLC. Iowa Steel Fabrication, LLC also has the option to purchase the crane at any time during the lease at an amount equal to the unpaid principal balance on the lease.

During the year ended September 30, 2015, total lease payments received on this lease totaled \$5,700. The unpaid balance on this lease totaled \$39,372 at September 30, 2015.

Note 7. Capital Assets

Capital assets activity for the year ended September 30, 2015 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Building and improvements	\$ 69,168	11,939	-	81,107
Equipment	37,333	29,703	11,959	55,077
Total capital assets	106,501	41,642	11,959	136,184
Less accumulated depreciation				
Buildings and improvements	35,411	2,273	-	37,684
Equipment	32,424	10,004	11,710	30,718
	67,835	12,277	11,710	68,402
Total capital assets depreciated, net	\$ 38,666	29,365	249	67,782

Depreciation expense for the year totaled \$12,277.

All of the capital assets are owned by the primary government. The blended component unit did not own any capital assets during the fiscal year.

Note 8. Long-Term Liabilities

Changes in long-term liabilities for the year ended September 30, 2015 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Compensated absences	\$ 19,016	35,683	19,016	35,683	35,683
Net pension liability	302,951	-	62,753	240,198	-
Line of credit payable	-	125,050	-	125,050	125,050
Total	\$ 321,967	160,733	81,769	400,931	160,733

All of the long-term liabilities were incurred by the primary government. The blended component unit did not have any long-term liabilities during the fiscal year.

Note 8. Long-Term Liabilities (continued)

Line of Credit

The Government obtained three different lines of credit, for a total of \$275,000. The funds from the lines of credits will be used to pay contractors performing housing rehabilitation work funded by a grant for the Cities of Earlham, Lorimor and Greenfield. Once the cities receive the grant reimbursement, the cities then reimburse the Government, and the Government then pays on the lines of credit. At September 30, 2015, the balances owed on these lines of credit totaled \$125,050. The interest rates on these lines of credit is 5% per annum. These lines of credit mature on July 1, 2016.

Note 9. Pension Plan

Plan Description - IPERS membership is mandatory for employees of the Government, except for those covered by another retirement system. Employees of the Government are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Note 9. Pension Plan (continued)

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the Government contributed 8.93% of covered payroll, for a total rate of 14.88%.

The Government's contributions to IPERS for the year ended September 30, 2015 totaled \$31,214.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At September 30, 2015, the Government reported a liability of \$240,198 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Government's proportion of the net pension liability was based on the Government's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the Government's proportion was 0.0048618%, which was a decrease of 0.000591% from its proportion measured as of June 30, 2014.

For the year ended September 30, 2015, the Government recognized pension expense of \$22,939. At September 30, 2015, the Government reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,629	-
Changes of assumptions	6,613	-
Net difference between projected and actual earnings on pension plan investments	-	19,991
Changes in proportion and differences between Government contributions and the Government's proportionate share of contributions	-	22,197
Government contributions subsequent to the measurement date	8,632	-
Total	\$ 18,874	42,188

\$8,632 reported as deferred outflows of resources related to pensions resulting from the Government contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Note 9. Pension Plan (continued)

Year Ending September 30,	Amount
2016	\$ (11,888)
2017	(11,888)
2018	(11,888)
2019	4,948
2020	(1,230)
	<u>\$ (31,946)</u>

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement, as follows:

Rate of Inflation (effective September 30, 2014)	3.00 percent per annum.
Rates of salary increase (effective September 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective September 30, 1996)	7.50 percent per annum, compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Note 9. Pension Plan (continued)

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28 %	2.04
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100 %	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Government will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Government's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Government's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Government's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Government's proportionate share of the net pension liability	\$ 420,543	240,198	87,973

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

Payables to the Pension Plan - At September 30, 2015, the Government reported payables to the defined benefit pension plan of \$1,920 for legally required employer contributions and \$2,880 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

Note 10. Related Party Transactions

The Government had business transactions between the Government and the Southern Iowa COG - Housing Trust Fund totaling \$45,860 during the year ended September 30, 2015.

The Southern Iowa COG – Housing Trust Fund is a separate nonprofit organization. However, the Government provides administrative services to the Southern Iowa COG – Housing Trust Fund.

Note 11. Risk Management

The Government is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Government assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 12. Commitment

At September 30, 2015, the Government had a total of \$275,000 in outstanding lines of credit, with \$125,050 borrowed at September 30, 2015. Therefore, the Government could borrow an additional \$149,950 from this line of credit in the future, until the maturity date of July 1, 2016.

Note 13. Contingency

The Government and the blended component unit participate in a number of Federal and State grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditures of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the Government or the component unit. The Government's and the blended component unit's management believes such revisions or disallowance, if any, will not be material to the Government or the blended component unit.

Note 14. Subsequent Events

The Government has evaluated subsequent events through August 29, 2016, which is the date the financial statements were available to be issued.

Note 15. Prior Period Adjustments

The beginning fund balances were restated to reflect governmental reporting as promulgated by the Governmental Accounting Standards Board. In addition, adjustments were made to the accounts to ensure the beginning balance amounts are reflective of the requirements pursuant to generally accepted accounting principles. The restatements are as follows:

	Balances at October 1, 2014, as previously reported	Prior Period Adjustments	Balances at October 1, 2014 as restated
Combined Statement of Activity	\$ 2,978,018	(2,978,018)	-
Statement of Activities:			
Net Position	-	3,015,098	3,015,098
Statement of Revenues, Expenditures and Changes in Fund Balances:			
General	-	859,069	859,069
Special Revenue, Southern Iowa Development Group, Inc.	-	2,128,105	2,128,105



Note 16. Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. Beginning net position for governmental activities were restated to retroactively report the beginning net pension liability, deferred outflows of resources and deferred inflows of resources, as follows:

	<u>Governmental Activities</u>
Net position September 30, 2014, as previously stated (See Note 15)	\$ 3,015,098
Net pension liability at September 30, 2014	(216,260)
Deferred inflows of resources:	
Related to the net difference between projected and actual investment earnings	(82,475)
Deferred outflows of resources:	
Related to difference between expected and actual experience	2,350
Related to change in assumptions	9,544
Related to prior year contributions made after the June 30, 2014 measurement date	<u>7,479</u>
Net position October 1, 2014, as restated	<u><u>\$ 2,735,736</u></u>

Required Supplementary Information

Southern Iowa Council of Governments

Schedule of the Government's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System  
For the Last Two Years\*  
(In Thousands)

Required Supplementary Information

	<u>2015</u>
Government's proportion of the net pension liability	0.004862%
Government's proportionate share of the net pension liability	\$ 240
Government's covered employee payroll	\$ 333
Government's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.05%
Plan fiduciary net position as a percentage of the total pension liability	85.19%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

**Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Government will present information for those years for which information is available.

Southern Iowa Council of Governments

Schedule of Government Contributions

Iowa Public Employees' Retirement System  
Last 10 Fiscal Years  
(In Thousands)

Required Supplementary Information

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 31	33	31	29	23	20	19	16	15	14
Contributions in relation to the statutorily required contribution	(31)	(33)	(31)	(29)	(23)	(20)	(19)	(16)	(15)	(14)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
Government's covered-employee payroll	\$ 350	370	355	353	318	297	295	261	257	243
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.74%	8.22%	7.23%	6.73%	6.43%	6.13%	5.83%	5.75%

See accompanying independent auditor's report.

Southern Iowa Council of Governments

Notes to Required Supplementary Information – Pension Liability

Year ended September 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25% to 4.00%.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs, deputies and protection occupation members.

## Supplementary Information

Southern Iowa Council of Governments  
Schedule of Expenditures of Federal Awards

Schedule 1

Year ended September 30, 2015

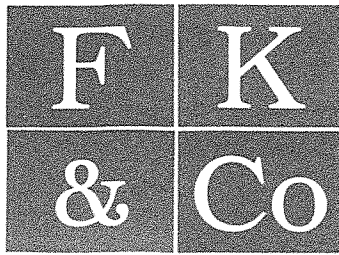
Grantor/Program	CFDA Number	Agency or Pass-Through Number	Program Expenditures
Direct -			
U.S. Department of Commerce -			
Economic Development Administration -			
Economic Development - Support for			
Planning Organizations	11.302	05-83-05337-01	\$ 35,228
Economic Development - Support for			
Planning Organizations	11.302	05-83-05337-02	18,983
			<u>54,211</u>
Economic Adjustment Assistance	11.307	53902265	460,139
Economic Adjustment Assistance	11.307	5390226501	317,300
Economic Adjustment Assistance	11.307	57904736	435,216
			<u>1,212,655</u>
Total direct			<u>1,266,866</u>
Indirect -			
U.S. Department of Transportation -			
Iowa Department of Transportation -			
Highway Planning and Construction	20.205	15-RPA-14	25,631
Highway Planning and Construction	20.205	16-RPA-14	15,332
			<u>40,963</u>
Formula Grants For Rural Areas	20.509	15-RPA-14	16,853
Formula Grants For Rural Areas	20.509	16-RPA-14	6,565
			<u>23,418</u>
Total indirect			<u>64,381</u>
Total			<u>\$ 1,331,247</u>

Computation of CFDA Number 11.307 - Economic Adjustment Assistance

	Grant Number		
	5392265	539226501	57904736
Balance of loans outstanding at September 30, 2015	\$ 154,292	188,770	122,029
Cash and Investment balance at September 30, 2015	472,744	229,267	358,429
Administrative expenses paid out in fiscal year	5,631	5,030	3,492
Unpaid principal of loans written off during the fiscal year	-	-	-
Total	<u>632,667</u>	<u>423,067</u>	<u>483,950</u>
Federal percentage	<u>72.73%</u>	<u>75.00%</u>	<u>89.93%</u>
Amount included on Schedule of Expenditures of Federal Awards	<u>\$ 460,139</u>	<u>317,300</u>	<u>435,216</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Southern Iowa Council of Governments and is presented on the modified accrual basis of accounting, except for revolving loan fund transactions (Economic Adjustment Assistance, CFDA 11.307), as explained above. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Directors of  
Southern Iowa Council of Governments:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Southern Iowa Council of Governments (Government) as of and for the year ended September 30, 2015, and the related Notes to Financial Statements, which collectively comprise the Government's basic financial statements, and have issued our report thereon dated August 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Government's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Government's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item II-A-15 to be a material weakness.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Government's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Government's operations for the year ended September 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Government. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

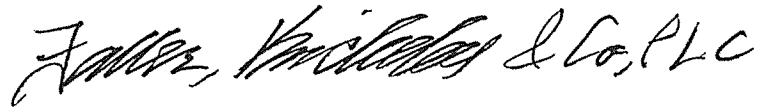
### The Government's Responses to Findings

The Government's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Government's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

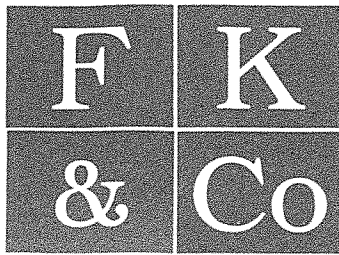
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Government's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Government's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Government during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co., PLC

Des Moines, Iowa  
August 29, 2016



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report on Compliance  
for Each Major Program and on Internal Control over Compliance  
Required by OMB Circular A-133

To the Board of Directors of  
Southern Iowa Council of Governments:

Report on Compliance for Each Major Federal Program

We have audited Southern Iowa Council of Government's (Government) compliance, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the Government's major federal program for the year ended September 30, 2015. The Government's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Government's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Government's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Government's compliance.

Opinion on Each Major Federal Program

In our opinion, the Government complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2015.

## Report on Internal Control Over Compliance

The management of the Government is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Government's internal control over compliance with requirements that could have a direct and material effect on the major federal program in order to determine our auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, material weaknesses and significant deficiencies may exist that were not identified. However, as discussed below, we identified deficiencies in internal control over compliance we consider to be material weaknesses and a deficiency we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-A-15, III-C-15 and III-D-15 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program which is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-B-15 to be a significant deficiency.

The Government's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Government's responses were not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Faller, Kincheloe & Co., PLC

Des Moines, Iowa  
August 29, 2016

Southern Iowa Council of Governments  
Schedule of Findings and Questioned Costs  
Year Ended September 30, 2015

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unmodified opinions were issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency and material weaknesses in internal control over the major program were disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 11.307 – Economic Adjustment Assistance.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Southern Iowa Council of Governments did qualify as a low-risk auditee.

Southern Iowa Council of Governments  
Schedule of Findings and Questioned Costs  
Year Ended September 30, 2015

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-15 Material Adjustments - We proposed adjusting journal entries that were material to the Government's financial statements. Adjusting journal entries were made to properly record beginning balances, assets, liabilities, revenues and expenditures. Adjustments were subsequently made by the Government to properly record these transactions on the Government's financial statements.

Recommendation – We recommend the Government implement procedures to ensure all transactions are properly recorded on the Government's accounting records.

Response – This report is based on the requirements set out by our previous auditing firm, Ted Willets, CPA, and have been acceptable for ten plus years. We will consult with our current auditing firm, Faller, Kincheloe & Co., PLC, to create a document that this firm believes fulfills the requirements of SEFA. We have submitted a proposal form for their review and comment.

Conclusion – Response acknowledged.

**INSTANCES OF NONCOMPLIANCE:**

No matters were noted.

Southern Iowa Council of Governments  
Schedule of Findings and Questioned Costs  
Year Ended September 30, 2015

**Part III: Findings and Questioned Costs for Federal Awards:**

**INSTANCES OF NONCOMPLIANCE:**

No matters were reported.

**INTERNAL CONTROL DEFICIENCIES:**

**CFDA Number 11.307: Economic Adjustment Assistance**

**Federal Award Year: 1987, 1994 and 2009**

**U.S. Department of Commerce**

**Passed through the Economic Development Administration (EDA)**

III-A-15  
(2015-001)      Economic Adjustment Assistance Grant – The Southern Iowa Development Group Inc. is required to file an annual report for each of its three grants with the EDA which documents various loan information. Our review of these bi-annual reports document amounts on these reports which could not be supported by the accounting records of the Southern Iowa Development Group, Inc.

Recommendation – The Southern Iowa Development Group, Inc. should implement procedures to ensure the amounts reported on the bi-annual reports filed with the EDA are supported by the accounting records of the Southern Iowa Development Group, Inc.

Response and Corrective Action Planned – In regards to the bi-annual reports filed with the EDA, the numbers in question are calculated by the EDA computer program, and we do not know how the EDA came up with them. In the future, we will attempt to ensure that the numbers on these bi-annual reports agree to the accounting records of the Southern Iowa Development Group, Inc.

Conclusion – Response acknowledged.

III-B-15  
(2015-002)      Monitoring of Loans – An instance was noted in which the Southern Iowa Development Group, Inc. was not listed as a loss payee on a building which is mortgaged with Southern Iowa Development Group, Inc. grant funds received from the EDA. One of the conditions of the loan to the recipient is that the Southern Iowa Development Group, Inc. be listed as a loss payee on the building's property insurance.

Recommendation – The Southern Iowa Development Group, Inc. should continue to work on establishing procedures to ensure that the borrowers are properly monitored for compliance with the conditions of the loans.

Response and Corrective Action Planned – We have contacted the borrower and they have agreed to add SICOG / SIDG as a loss payee on their insurance policy.

The SICOG / SIDG is currently waiting on the documentation from the insurance carrier.

Conclusion – Response acknowledged.

Southern Iowa Council of Governments

Schedule of Findings and Questioned Costs

Year Ended September 30, 2015

III-C-15  
(2015-003)

Sequestered Funds – Excess bank interest earnings on Southern Iowa Development Group, Inc. sequestered funds are required to be paid to the EDA on a quarterly basis. We noted that the Southern Iowa Development Group, Inc. is not consistently remitting excess bank interest earnings on sequestered funds to the EDA on a quarterly basis. In addition, the amount of sequestered funds as determined by the Southern Iowa Development Group, Inc. does not appear to be accurate.

Recommendation – The Southern Iowa Development Group, Inc. should implement procedures to ensure excess bank interest earnings on sequestered funds be paid to the EDA on a quarterly basis. In addition, procedures should be implemented to ensure the amounts of sequestered funds are accurately computed.

Response and Corrective Action Planned – We have begun to remit our sequestered funds bank interest earnings to the EDA on a quarterly basis and we will review how we compute the amount of sequestered funds.

Conclusion – Response acknowledged.

III-D-15  
(2015-004)

New Loan – An instance was noted in which the Southern Iowa Development Group, Inc. made a loan to a recipient from funds from a specific EDA grant, even though the recipient of this loan was not in the approved lending area in relation to this grant.

Recommendation – The Southern Iowa Development Group, Inc. should work with the EDA to resolve this situation.

Response and Corrective Action Planned – We have contacted the EDA, and we shifted this loan to a different EDA grant which allows the recipient in that county to receive the loan.

Conclusion – Response acknowledged.

Southern Iowa Council of Governments  
Schedule of Findings and Questioned Costs  
Year Ended September 30, 2015

**Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-15 Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-B-15 Travel Expense – No expenditures of Southern Iowa Council of Governments (Government) money for travel expenses of spouses of Government officials or employees were noted.

IV-C-15 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not, except that the government does not publish its minutes or the schedule of bills allowed, as required by Chapter 28E of the Code of Iowa.

Recommendation – The Government should ensure that the minutes and schedule of bills allowed are published in the newspaper as required by the Code of Iowa.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

IV-D-15 Deposits and Investments – Except as noted below, no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Government’s investment policy were noted.

- The Government did approve a depository resolution but did not approve a dollar maximum for each depository, as required by Chapter 12C.2 of the Code of Iowa.
- The Government does have an investment policy, as required by Chapter 12B.10 of the Code of Iowa; however, this investment policy refers to an outdated section of the Code of Iowa.

Recommendation – The Government should implement procedures to ensure compliance with the Code of Iowa in relation to the depository resolution and the investment policy.

Response – The Investment Policy has been updated and was approved at the Executive Board Meeting held on January 5, 2016.

Conclusion – Response acknowledged.